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**FISCAL IMPACT STATEMENT**

**LS 6470**

**BILL NUMBER:** SB 323

**NOTE PREPARED:** Jan 5, 2005

**BILL AMENDED:**

**SUBJECT:** Adjustments to Maximum Property Tax Levy.

**FIRST AUTHOR:** Sen. Server

**BILL STATUS:** As Introduced

**FIRST SPONSOR:**

**FUNDS AFFECTED:** X GENERAL  
X DEDICATED  
FEDERAL

**IMPACT:** State & Local

**Summary of Legislation:** This bill allows the Department of Local Government Finance (DLGF) to increase a civil taxing unit's maximum permissible levy by the amount of a temporary adjustment that reduced the maximum levy in a prior year.

**Effective Date:** July 1, 2005.

**Explanation of State Expenditures:** The state pays a 20% property tax replacement credit (PTRC) on the amount of levy that is within a civil unit's maximum levy limit that is attributable to property other than business personal property. Likewise, the state pays a 20% homestead credit on the net tax due (after PTRC) of levies that are within the limit and attributable to homesteads.

If all affected units utilize the entire estimated maximum levy increase that would be allowed under this proposal, state expenditures for PTRC and homestead credit could increase by as much as \$2.2 M in FY 2006 (partial year), \$6.7 M in FY 2007, and \$7.0 M in FY 2008. The actual change in state expenditures could be less than these estimates depending on the actual amount of property tax levies imposed locally.

PTRC and homestead credits are paid from the Property Tax Replacement Fund (PTRF). These credits are paid from the state General Fund if insufficient balances are available in the PTRF.

**Explanation of State Revenues:**

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** Beginning with taxes paid in 2004, maximum permissible levies are calculated by multiplying the previous year's actual controlled levy by the six-year average increase in Indiana nonfarm personal income. The annual increase is limited to 6%, although a taxing unit may appeal to the state's Local Government Property Tax Control Board for a larger increase in the maximum levy if the unit's AV growth is 3% greater than the statewide average growth in AV.

Prior to the passage of SEA 1 (2004) and HEA 1001 (2004), the income factor was applied to the previous year's maximum levy rather than the actual levy. The change in 2004 eliminated "banking" of unused levy authority for future use.

Under this proposal, a civil taxing unit would be permitted to file a request with the DLGF to increase its 2006 unit maximum levy or township fire fighting maximum levy by the amount, if any, of temporary adjustments made to the working maximum levy in 2003 or 2004. Civil taxing units that file a request would have to identify the adjustments to the DLGF.

This bill would not affect the maximum levies for the county family and children's fund or the school transportation fund.

Assuming that each taxing unit fully utilizes its 2005 maximum levy under current law, the total 2006 maximum levy authority for civil units is estimated at \$2,621 M and \$94 M for the 2006 township firefighting units. This bill could increase those maximum levies for 2006 by as much as \$27.5 M for unit level maximum levies and \$1 M for firefighting maximum levies. Potential increases were estimated in 112 of 915 township firefighting funds, and 305 of 2,125 unit level maximum levies.

While the actual amount of temporary adjustments is not known, it was assumed for purposes of this analysis that the adjustments are equal to the difference between the 2002 controlled levy and the 2004 controlled levy for those units where the 2004 amount is less than the 2002 amount.

Each affected local taxing unit would decide whether or not to increase its levy to use all or part of the increase in the limit. The increase would remain a part of the maximum levy base as long as the taxing unit levies that amount. However, if at any time, including 2006, a taxing unit does not use all of its levy authority, the unused amount will be lost from the base.

Under this proposal, if all maximum levy increases were fully utilized each year, gross property tax levies would increase by an estimated \$28.5 M in CY 2006, \$29.6 M in CY 2007, and \$30.8 M in CY 2008. Net levies, after PTRC and homestead credits are paid, would increase by an estimated \$21.9 M in CY 2006, \$22.7 M in CY 2007, and \$23.6 M in CY 2008. The actual increase in levies could, however, be less than these estimates and would be subject to local levy decisions.

**State Agencies Affected:** Department of Local Government Finance.

**Local Agencies Affected:** Local civil taxing units.

**Information Sources:** Local Government Database.

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